

# **Latinos in Business**

## **Executive Summary**

California is home to more Latino-owned businesses (LOBs) than any other state. Here, 9% of Latinos own their own businesses and those who do are typically 3.5 times wealthier than their jobholding counterparts. Business-ownership, like educational attainment, is strongly correlated with wealth. In a state where Latinos are expected to become the next ethnic majority, it is necessary to recognize the importance of Latino business-ownership.

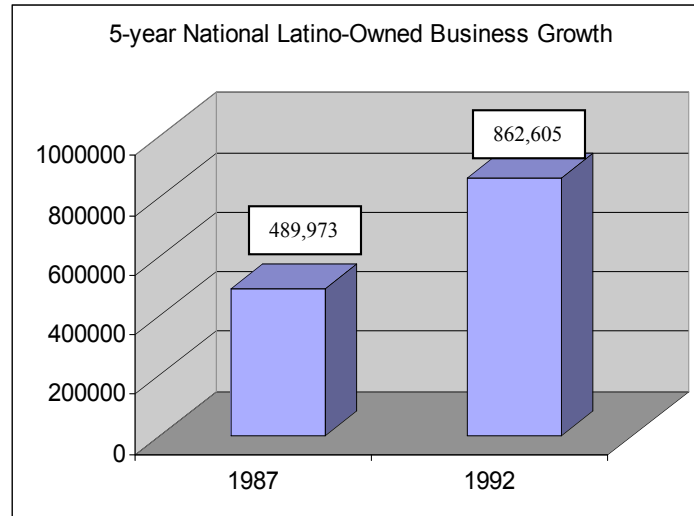
Despite growing participation, by Latinos, in the arena of business, there is still a dearth of representation in some industries. Finance, manufacturing and wholesale trade are areas in which Latinos are grossly underrepresented. While Latinos are conspicuously lacking in these arenas, they have high rates of participation in the service sector, where per-employee revenue tends to be lowest. Indeed, while more than 45% of LOBs are in the service sector, they only represent 23% of the total receipts taken in by LOBs. The retail industry, where only 14% of LOBs operate, accounted for 24% of LOB sales receipts.

The future of Latino business participation faces a myriad of problems. General participation must be increased across the board. Also, it is important for LOBs to gain a greater foothold in industries other than service, which tend to bring in higher revenue per-worker. In order to do so, capital must be made more accessible to LOBs so that they can expand, and also to those individuals who wish to start their own businesses. 'Old boy' networks that tend to exclude minorities must be extinguished so that Latinos have a fair chance in the corporate world. Finally, California must make an effort to reach Latino youth and encourage them to become business-owners so that the future of the state's economy can be secured.

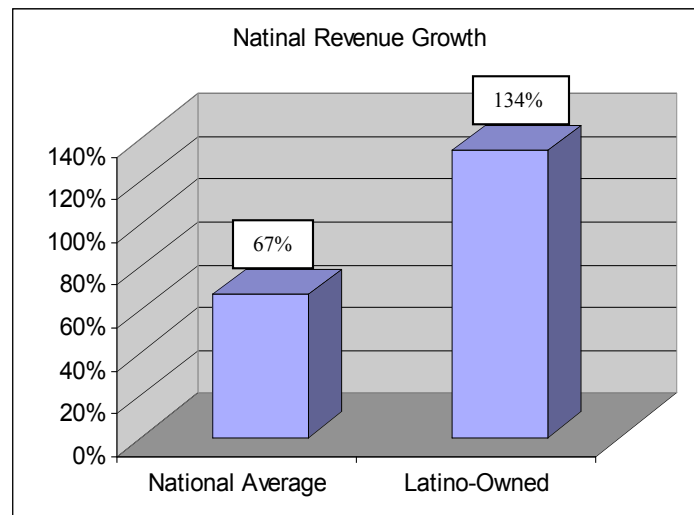
Through business, the Latino community can see California through the future as well as better its own socio-economic position within the state.

## Latinos in Business: History

In 1992, California was home to more Latino-owned businesses (LOBs) than any other state in the nation.<sup>1</sup> In that year, the 250,000 LOBs that existed in the state produced \$19.5 billion in sales. Between 1987 and 1997, annual growth for LOBs was twenty-three percent! From 1987 to 1992, the number of LOBs increased 76%, from 489,973 to 862,605.<sup>2</sup>



Nationally, LOBs accounted for 5% of all firms in the U.S.<sup>2</sup> Receipts for LOBs increased 134% between 1987 and 1992, while receipts for all U.S. firms grew only 67% during the same period.<sup>2</sup>

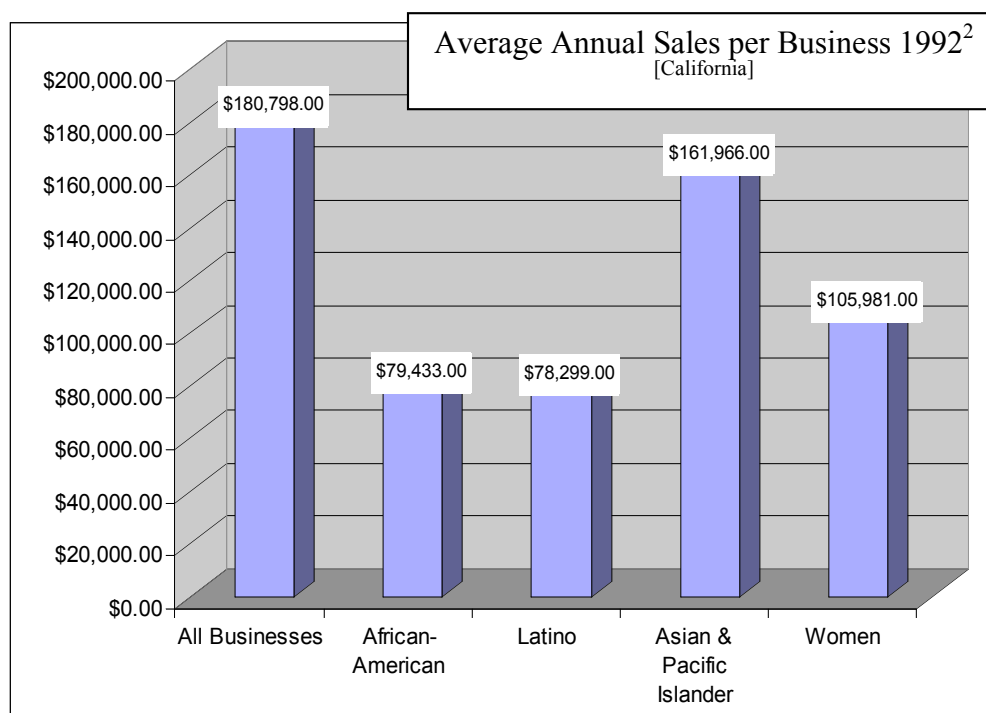


Despite impressive growth, Latino businesses still tend to trail behind the average state business in overall size and revenue.

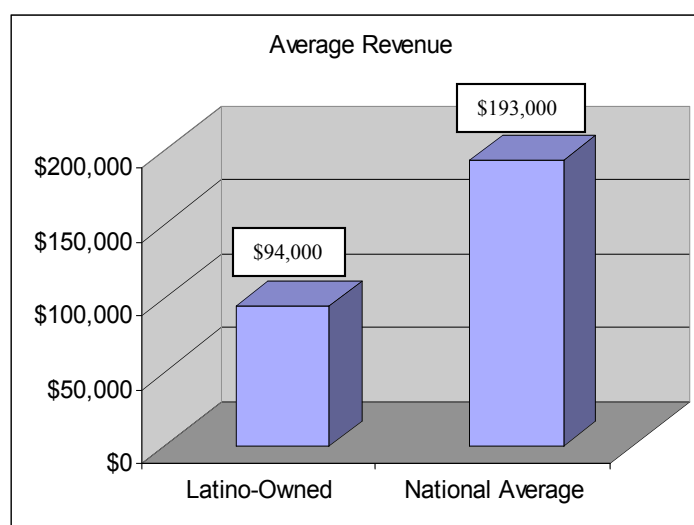
<sup>1</sup> Gandara, Patricia, Elias Lopez and Ginny Puddefoot. *A Coordinated Approach to Raising the Socio-Economic Status of Latinos in California*, California Research Bureau, 2000.

<sup>2</sup> *Statistical Brief*, U.S. Department of Commerce, U.S. Census Bureau, 1996.

While the average California business averaged \$180,790 in 1992 sales, LOBs trailed behind at \$78,299. For comparison, Asian and Pacific Islander-owned businesses averaged \$161,966 in sales and African-American-owned businesses averaged \$79,433.<sup>3</sup>



In 1992, the average U.S. Latino-owned business made less than half of what the average U.S. business makes in annual revenue.



The areas of industry in which LOBs were concentrated and the revenues generated by these industries are worth noting:

Forty-five percent of [LOBs] were in the service industries, which took in 23 percent of the total receipts...Retail trade industries

<sup>3</sup> 1992 Survey of Minority-Owned Business Enterprises, California Research Bureau, California State Library, 2000.

made up just fourteen percent of the total firms, but took in 24 percent of the total receipts.<sup>4</sup>

Retail accounted for nearly same amount of receipts as the service industry, in which Latino representation is nearly three-times greater.

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<sup>4</sup> *Statistical Brief*, U.S. Department of Commerce, U.S. Census Bureau, 1996

## Latinos in Business: Current Conditions

California is home to most of the nation's Latino-owned businesses (LOBs). Fourteen of the "Top 50 Metro Areas in Number of Hispanic-Owned Firms" for 1992 were in California. Texas was second, with eleven metro areas, and Florida came in at a distant third, with only five metro areas. The preponderance of LOBs in California underscores the importance of the Latino community to the state's business climate.

More than forty-seven percent of California's LOBs are in the service industry. Other industries in which LOBs tend to have greater representation include agriculture and retail trade.<sup>5</sup> The areas that need to be addressed, however, are those in which LOBs are underrepresented: finance, manufacturing and wholesale trade. The expense of entering these latter industries poses a major barrier to Latinos, whose firms are "undercapitalized...and face higher interest rates on loans, and are often reluctant to apply for credit."<sup>5</sup>

Business ownership not only benefits the state, but also the people. While the average Californian business-owner is twice as wealthy as the average Californian jobholder (\$380,564 vs. \$163,307), the average Latino business-owner is nearly 3.5 times as wealthy as the average Latino jobholder (\$227,851 vs. \$64,665).<sup>6</sup> Unfortunately, only a select few from the Latino population are reaping the benefits of business-ownership: only 9% of Latinos own businesses, one of the lowest rates in the state. In contrast, nearly 20% of White and 14% of Asian Californians own their own businesses.

While education is often touted as the most potent tool in advancing socio-economic status, business-ownership is proving to be quite a force. High school graduates who own businesses have at least three-quarters of the wealth that a jobholding college graduate has.<sup>6</sup> In fact, a high school graduate who owns a business will have far more wealth than a jobholder with only some college. Business-ownership, like educational attainment, is associated with wealth. This correlation between business-ownership and wealth has interesting implications for those who are interested in advancing the socio-economic status of California's Latino population.

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<sup>5</sup> Gandara, Patricia, Elias Lopez and Ginny Puddefoot. *A Coordinated Approach to Raising the Socio-Economic Status of Latinos in California*, California Research Bureau, 2000.

<sup>6</sup> Lopez, Elias S. and Rosa Maria Moller. *The Distribution of Wealth in California, 2000*. California Research Bureau. 2000.

## **Latinos in Business: Previous Legislative Efforts**

### **SB 252 (Chesbro-D) Microenterprises**

Requires the State Technology, Trade and Commerce Agency to provide matching grants to eligible recipients under the federal Program for Investment in Microentrepreneurs Act of 1999 (PRIME Act).

### **AB411 (Haynes-R) California New Markets**

Creates the California New Markets Venture Capital Program and requires the State Technology, Trade and Commerce Agency to enter into agreements with eligible companies to guarantee the debentures of the companies to support investment in small enterprises located in low or moderate income geographic areas.

### **SB405 (Florez-D) Small Business Development Corporations**

Authorizes the executive director of the California Office of Small Business to establish a single account within the California Small Business Expansion Fund, instead of a separate account for each of the existing eleven small business financial development corporations (SBFDCs), that may be used to satisfy the obligations of SBFDCs that previously received any monies from the fund.

### **AB480 (Ridley-Thomas-D) Business Development**

Authorizes the Joint Committee on Preparing California for the 21<sup>st</sup> Century, in collaboration with the University of California and other entities, to issue to the Governor and the Legislature a report relative to the status of the state's minority, disabled persons', and women-owned or operated businesses and their impact on the state's economy.

### **AB2932 (Florez-D) Small Business Development Corporations**

Authorizes the Executive Director of the California Office of Small Business to establish a single loan guarantee account within the California Small Business Development Fund, instead of a separate account for each of the 11 small business financial development corporations.

## **Latinos in Business: Future Goals**

Currently, barely 6% of the nation's businesses are owned by Latinos. In California, less than ten percent of the Latino population own businesses. Despite this, growth for LOBs has been phenomenal in the past decade. In one particular 5-year span, from 1987 to 1992, the number of LOBs in the U.S. grew by 76%! Still, Latinos are grossly underrepresented in business. In order to increase Latino participation in the arena of business, capital must be made accessible, socially responsible business networks must be forged and entrepreneurship must be encouraged.

A prime factor in Latino business ownership is the availability of capital. It is theorized that the relative financial ease with which one may enter the service sector is the reason that so many LOBs are present there. The generally high interest rates that Latino firms are faced with, coupled with a general reluctance to apply for credit, may very well be the reason that so few LOBs are in the manufacturing, wholesale trade and finance sectors – all of which are large-scale operations requiring hefty capital investments. In order to encourage Latino participation in large-scale businesses, financial institutions must be brought to understand the needs of the Latino business-owner. Having Latino credit-institutions or Latino bank trustees would help to break 'good old boy' social networks that tend to shy away from business with the Latino population.

Changing the faces of the state's social networks will also help Latinos expand their hold in the business world. Social networks can either harm or hurt business owners, depending on whether they are 'in' the network or 'out' of it. A visible way of disrupting closed social networks is to get Latino executives onto corporate boards. Diversity at the top-most levels of corporate California will go a long way towards ensuring that the state's Latino population gets fair treatment in business.

Lastly, it is important for the state's Latinos to be encouraged in the arena of business. From an early age, Latinos should be made to understand that business-ownership can be a reality and that financial assistance is readily available.

## **Latinos in Business: Recommended Action**

1. Capital Access
  - a. Increase awareness in the Latino community of available government assistance.
  - b. Increase financial institutions' awareness of Latino business-owner needs.
  - c. Programs should be developed to partner Latino business-owners and prospective Latino business-owners with venture capitalists and other sources of private funding.
  - d. Latino lending institutions should be created with the purpose of stimulating development of LOBs.
2. Social Networks
  - a. Encourage a diversified corporate executive base in order to break 'good old boy' networks that breed exclusion of minorities vis-à-vis institutionalized racism.
    - i. Incentive programs should be developed for businesses that have or are striving towards achieving diverse corporate boards.
  - b. Encourage South American trade.
    - i. Linguistic and cultural similarities should be recognized for what they are – market advantages – and fully utilized in trade with Mexico and other South American countries. LOBs will, in many cases, have an edge when conducting business in this region.
3. Early Outreach
  - a. Programs that partner Latino college students with corporate sponsors or mentors that will expose the students to the corporate world should be developed. Such programs will empower Latino youth and hopefully inspire them towards becoming business-owners.